

Message Text

SECRET

PAGE 01 MOSCOW 14362 081513Z

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TO SECSTATE WASHDC IMMEDIATE 5301

S E C R E T MOSCOW 14362

NODIS

FROM ROBINSON

E. O. 11652: GDS

TAGS: ETRD, EEWHT, UR, US

SUBJ: GRAIN/OIL NEGOTIATIONS

REF: STATE 239604

1. BEGIN SUMMARY: I MET WITH PATOLICHEV AND KUZ'MIN AT 11 A.M. THIS MORNING ACCCOMPANIED BY AMBASSADOR STOESSEL FOLLOWING RECEIPT OF INSTRUCTIONS IN REFTEL. WE WERE LATER JOINED BY BELL OF FEA AND MERKULOV (PRESIDENT OF SOYUZNEFTEEXPORT) AND MELNIKOV (MINISTRY OF FOREIGN TRADE, USA DESK) FOR WHAT TURNED OUT TO BE A THREE-HOUR SESSION. WE PRESENTED OUR DEMAND FOR A 15 PERCENT DISCOUNT ON THE OIL PRICE COUCED IN TERMS THAT WE FELT WOULD BE LEAST OFFENSIVE. THE RESPONSE FROM PATOLICHEV WAS AN IMMEDIATE "NO, NO, NO, NEVER." THE REASONS FOR THIS POSITION WERE EXPLAINED IN STRONG EMOTIONAL TERMS AS REPORTED IN MORE DETAIL BELOW. I ADVISED HIM THAT I WILL DEPART MOSCOW AT ABOUT 10 A.M. TOMORROW, THURSDAY. END SUMMARY.

2. AFTER EXPLAINING THAT WE REQUIRED A 15 PERCENT DISCOUNT ON THE OIL PRICE, WE INDICATED THAT THIS COULD BE HANDLED THROUGH A REVISION OF CLAUSE 6 IN THE OIL LETTER OF INTENT OR ALTERNATIVELY BY A SIDE LETTER WITH THE FOLLOWING TEXT: "IT IS UNDERSTOOD THAT THE PRICE OF CRUDE OIL AND PETROLEUM PRODUCVPT PTEZFOAYBFCYMYBP MMYWDLSXWT&553?&

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SECRET

PAGE 02 MOSCOW 14362 081513Z

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HVXPGNKIEDNMENTS # ARE
TO ENTER INTO SHALL BE ESTABLISHED ON THE BASIS OF WORLD
PRICES. TO TAKE ACCOUNT OF TRANSPORTATION AND OTHER
FACTORS, INCLUDING THE NEED FOR SUCH CRUDE OIL TO BE
COMPETITIVE IN UNITED STATES MARKETS, IT IS AGREED THAT
THE PRICE OF SIMILAR QUALITY SOVIET OIL, F.O.B.
NOVOROSSISK, SHALL BE 15 PERCENT LESS THAN THE F.O.B. MARKET
PRICE, RAS TANURA, OF 34 DEGREE ARABIAN LIGHT CRUDE OIL.
PETROLEUM PRODUCTS SHALL BE PRICED AT THE COMPETITIVE
EQUIVALENT OF THE PRICE OF CRUDE OIL. UNLESS OTHERWISE
AGREED BY THE PARTIES, ALL OTHER TERMS AND CONDITIONS
SHALL BE IN ACCORD WITH NORMAL COMMERCIAL PRACTICES."

3. PATOLICHEV REJECTED THIS IDEA IMMEDIATELY AND IN HARSH
TERMS MAKING THE FOLLOWING POINTS:

A. TO SELL OIL TO THE U.S. AT ALL REPRESENTS A MAJOR
SACRIFICE AS THIS OIL CAN ONLY BE MADE AVAILABLE THROUGH
IMPOSING FURTHER SACRIFICES ON THE DOMESTIC ECONOMY.

B. THE WORLD WOULD CONSIDER THEM "IDIOTS" AND INTERNALLY
THEY COULD BE ACCUSED OF "HIGH TREASON."

C. HE VIEWED MY DEMAND FOR A PRICE DISCOUNT AS
"UNBELIEVABLE AND OFFENSIVE."

D. HE STATED THAT WHEN SECRETARY GENERAL BREZHNEV REPORTED
TO THE POLITBURO ON THE HELSINKI DISCUSSIONS REGARDING OIL
THERE WAS ABSOLUTELY NO REFERENCE TO ANY PRICE DISCOUNT.

E. WHEN I MENTIONED THAT OUR POSITION ON THE PRICE
DISCOUNT HAD BEEN EXPLAINED TO AMBASSADOR DOBRYNIN, HE
INDICATED THAT HE HAD NOT HEARD OF THIS AND IN ANY EVENT THAT
THIS WAS OUT OF ORDER AS HE, PATOLICHEV, HAD BEEN CHARGED WITH
THE SOLE RESPONSIBILITY FOR CONDUCTING THESE NEGOTIATIONS.

F. HE STATED THAT IN BOXING THIS WOULD BE VIEWED AS A
BLOW "BELOW THE BELT" FOR WHICH THERE IS A VERY SEVERE PENALTY.

SECRET

SECRET

PAGE 03 MOSCOW 14362 081513Z

G. WITH REGARD TO OUR ASSURANCE OF MAINTAINING SUCH A
DISCOUNT CONFIDENTIAL, HE REPORTED THAT HE HAD HEARD THAT TWO
SENATORS HAD STATED PUBLICLY YESTERDAY THAT BECAUSE OF THE
SOVIET NEED FOR GRAIN WE WERE GOING TO OBTAIN A 15 PERCENT
DISCOUNT ON OIL. IT WAS APPARENT THAT THERE WAS NO WAY THAT
THIS COULD BE MAINTAINED IN CONFIDENCE.

H. HE ALSO UNDERSTOOD THAT THERE WAS A SENATE RESOLUTION

REQUESTING THAT WE TRY TO OBTAIN THE 15 PERCENT DISCOUNT AND HE CAN ONLY ASSUME THAT MY PRESENT EFFORT WAS IN COMPLIANCE WITH THAT DEMAND.

I. KUZ'MIN WITH PATOLICHEV'S SUPPORT INDICATED THAT WE WERE TRYING TO DESTROY THE USSR'S RELATIONS WITH OIL PRODUCERS AND CONSUMERS THROUGHOUT THE WORLD BY DEMANDING A DISCOUNT. THIS THEY COULD NEVER DO. HE WENT ON TO SAY THAT THIS WAS A HUMILIATING AND OFFENSIVE PROPOSAL.

J. FINALLY, PATOLICHEV INDICATED THAT OUR PRESSING THIS DEMAND WOULD PLACE THE NEXT MEETING BETWEEN PRESIDENT FORD AND BREZHNEV ON AN UNSATISFACTORY BASIS. CONTINUED PRESSURE ON THIS FRONT COULD START A DOWNWARD TREND IN OUR OVERALL RELATIONS WHICH COULD ULTIMATELY LEAD US BACK TO THE COLD WAR WITH ITS IMPLIED THREATS.

4. PATOLICHEV SPECIFICALLY REQUESTED ME TO TELL PRESIDENT FORD THAT THE SOVIETS WILL CONTINUE TO SHOW RESPECT FOR OUR GREAT NATION BUT, AS THE USSR IS ALSO A GREAT NATION, THEY COULD NEVER REPEAT NEVER ACCEPT THE KIND OF UNILATERAL PRESSURE IMPLIED BY OUR DEMAND FOR AN OIL PRICE DISCOUNT.

5. IN A PRIVATE DISCUSSION WITH PATOLICHEV ALONE FOLLOWING THE MEETING, WE DISCUSSED THE QUESTION OF WHETHER OR NOT THERE WOULD BE A PARALLEL RESPONSE FROM THE SOVIETS THROUGH THE DOBRYNIN ROUTE. HE TOLD ME THAT HE DID NOT KNOW WHETHER SUCH A RESPONSE WOULD GO FORWARD BUT STATED UNEQUIVOCALLY THAT, IF IT DID, IT WOULD BE THE SAME KIND OF RESPONSE WHICH HE HAD GIVEN ME DIRECTLY.

6. I ADVISED PATOLICHEV THAT WE WOULD REPORT THEIR POSITION TO WASHINGTON AND I WOULD DEPART MOSCOW AT ABOUT 10 A.M.

SECRET

SECRET

PAGE 04 MOSCOW 14362 081513Z

TOMORROW, THURSDAY. I DID SUGGEST THE POSSIBILITY OF A FINAL SHORT MEETING TO SAY GOODBYE PRIOR TO MY DEPARTURE.

7. WE WILL CONTINUE TO HOLD OUR POSITION THAT WE MUST HAVE A COMMITMENT TO A 15 PERCENT PRICE DISCOUNT BEFORE WE CAN ACCEPT THE LONG-TERM GRAIN AGREEMENT AND THE OIL LETTER OF INTENT. WE AND THE SOVIETS HAVE BOTH CONFIRMED THAT THESE LATTER DOCUMENTS ARE NOW READY FOR INITIALING BUT OUR POSITION IS CLEAR THAT WE MUST ALSO CONCLUDE AN OIL PRICE DISCOUNT AGREEMENT AT THE SAME TIME. (PATOLICHEV INDICATED SURPRISE THAT I DID NOT HAVE AUTHORITY TO SIGN, WHICH WAS THE BASIS UNDER WHICH HE HAD BEEN CONDUCTING THESE NEGOTIATIONS.)

8. IN MY JUDGMENT THERE WILL BE NO BENDING ON THE PART OF THE SOVIETS FROM ANY PRESSURE I CAN APPLY HERE TO OBTAIN AN

OIL PRICE DISCOUNT. ACCORDINGLY, I WILL DEPART MOSCOW
TOMORROW MORNING LEAVING THE GRAIN AGREEMENT AND OIL LETTER
OF INTENT IN THE AIR.
STOESSEL

NOTE BY OC/T: MOSCOW 14362; #PARA. 2 GARBLED. CORRECTION TO FOLLOW.

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NNN

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